

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2019
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-08429



THUNDER MOUNTAIN GOLD, INC.

(Exact name of Registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

91-1031015

(IRS identification No.)

11770 W President Dr. STE F

Boise, Idaho

(Address of Principal Executive Offices)

83713-8986

(Zip Code)

(208) 658-1037

(Registrant's Telephone Number, including Area Code)

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, \$0.001 par value	THMG THM	OTCQB TSX-V

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act) or an emerging growth company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

Number of shares of issuer's common stock outstanding at August 13, 2019: 60,133,879

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PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

Thunder Mountain Gold, Inc.
Consolidated Balance Sheets (Unaudited)
June 30, 2019 and December 31, 2018

	June 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 151,080	\$ 3,710
Prepaid expenses and other assets	31,992	29,425
Total current assets	183,072	33,135
Property and Equipment:		
Land	280,333	280,333
Equipment, net of accumulated depreciation of \$139,598 and \$124,384, respectively	43,007	58,221
Total property and equipment	323,340	338,554
Investment in equity security, at fair value (Note 3)	1,833,149	-
Mineral interests (Note 3)	-	479,477
Total assets	\$ 2,339,561	\$ 851,166
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 119,487	\$ 138,092
Accrued related party liability (Note 5)	241,685	241,685
Accrued interest payable to related parties (Note 5)	63,772	52,787
Deferred officer compensation (Note 6)	1,063,500	1,041,500
Related parties notes payable, (Note 5)	166,576	126,576
Total current liabilities	1,655,020	1,600,640
Accrued reclamation costs	65,000	65,000
Total liabilities	1,720,020	1,665,640
Commitments and Contingencies (Notes 2 and 3)		
Stockholders' equity (deficit):		
Preferred stock; \$0.0001 par value, 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock; \$0.001 par value; 200,000,000 shares authorized, 60,145,579 and 57,645,579 shares issued and outstanding, respectively	60,146	57,646
Additional paid-in capital	6,176,576	5,811,988
Less: 11,700 shares of treasury stock, at cost	(24,200)	(24,200)
Accumulated deficit	(5,766,683)	(6,833,610)
Total Thunder Mountain Gold, Inc stockholders' equity (deficit)	445,839	(988,176)
Noncontrolling interest in Owyhee Gold Trust (Note 3)	173,702	173,702
Total stockholders' equity (deficit)	619,541	(814,474)
Total liabilities and stockholders' equity (deficit)	\$ 2,339,561	\$ 851,166

The accompanying notes are an integral part of these consolidated financial statements.

Thunder Mountain Gold, Inc.
Consolidated Statements of Operations (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Revenues:				
Gain on mineral interest	\$ 1,504,398	\$ -	\$ 1,504,398	\$ -
Management service income	50,000	-	50,000	-
Total revenues	<u>1,554,398</u>	<u>-</u>	<u>1,554,398</u>	<u>-</u>
Operating expenses:				
Exploration	7,561	118,457	16,178	176,073
Legal and accounting	25,710	80,475	114,721	108,036
Management and administrative	97,440	69,055	278,667	160,184
Depreciation	7,134	12,402	15,214	25,009
Total operating expenses	<u>137,845</u>	<u>280,389</u>	<u>424,780</u>	<u>469,302</u>
Other income (expense):				
Interest expense, related parties	(6,588)	(4,547)	(11,721)	(19,644)
Unrealized loss on investment	(50,726)	-	(50,726)	-
Miscellaneous income (expense)	(243)	5	(244)	708
Total other income (expense)	<u>(57,557)</u>	<u>(4,542)</u>	<u>(62,691)</u>	<u>(18,936)</u>
Net Income (loss)	<u>1,358,996</u>	<u>(284,931)</u>	<u>1,066,927</u>	<u>(488,238)</u>
Net Income (loss) – noncontrolling interest in Owyhee Gold Trust	-	-	-	-
Net Income (loss) – Thunder Mountain Gold, Inc.	<u>\$ 1,358,996</u>	<u>\$ (284,931)</u>	<u>\$ 1,066,927</u>	<u>\$ (488,238)</u>
Net Income (loss) per common share-basic and diluted	<u>\$ 0.02</u>	<u>\$ 0.00</u>	<u>\$ 0.02</u>	<u>\$ (0.01)</u>
Weighted average common shares outstanding-basic and diluted	<u>58,195,030</u>	<u>57,409,315</u>	<u>57,921,822</u>	<u>56,674,861</u>

The accompanying notes are an integral part of these consolidated financial statements.

Thunder Mountain Gold, Inc.
Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2019	2018
Cash flows from operating activities:		
Net Income (loss)	\$ 1,066,927	\$ (488,238)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation	15,214	25,009
Stock based compensation	117,088	-
Amortization of related party notes payable discount	-	8,888
Gain on mineral interest	(1,504,398)	-
Unrealized loss on investment	50,726	-
Change in:		
Prepaid expenses and other assets	(2,567)	(1,443)
Accounts payable and other accrued liabilities	(18,605)	33,662
Accrued related party liability	-	65,530
Accrued interest payable to related parties	10,985	10,756
Deferred officer compensation	22,000	78,000
Net cash used by operating activities	<u>(242,630)</u>	<u>(198,836)</u>
Cash flows from investing activities:		
Proceeds from mineral interest	100,000	-
Net cash provided by investing activities	<u>100,000</u>	<u>-</u>
Cash flows from financing activities:		
Proceeds from sale of common stock and warrants	250,000	252,988
Distribution to noncontrolling interest	-	(421)
Borrowings on related parties notes payable	50,000	-
Payment on related parties notes payable	(10,000)	-
Net cash provided by financing activities	<u>290,000</u>	<u>252,567</u>
Net increase (decrease) in cash and cash equivalents	147,370	53,731
Cash and cash equivalents, beginning of period	3,710	36,454
Cash and cash equivalents, end of period	<u>\$ 151,080</u>	<u>\$ 90,185</u>
Noncash financing and investing activities:		
Common stock issued for payment of related party note payable and accrued interest payable	-	\$ 104,012
Investment in equity security received for mineral interest (Note 3)	1,883,875	-

The accompanying notes are an integral part of these consolidated financial statements.

Thunder Mountain Gold, Inc.
Consolidated Statements of Changes in Stockholders' Equity (Deficit)
For the three -month periods ended June 30, 2019 and June 30, 2018

	Common Stock			Treasury Stock	Accumulated Deficit	Non-Controlling Interest in OGT	Total
	Shares	Amount	Additional Paid-In Capital				
Balances at April 1, 2018	57,145,579	\$ 57,146	\$ 5,742,488	\$(24,200)	\$ (6,399,230)	\$ 173,690	\$ (450,106)
Shares and warrants issued for cash	500,000	500	69,500	-	-	-	70,000
Net income (loss)	-	-	-	-	(284,931)	-	(284,931)
Balances at June 30, 2018	<u>57,645,579</u>	<u>\$ 57,646</u>	<u>\$ 5,811,988</u>	<u>\$(24,200)</u>	<u>\$ (6,684,161)</u>	<u>\$ 173,690</u>	<u>\$ (665,037)</u>
Balances at April 1, 2019	57,645,579	\$ 57,646	\$ 5,929,076	\$(24,200)	\$ (7,125,679)	\$ 173,702	(989,455)
Shares issued for cash	2,500,000	2,500	247,500	-	-	-	250,000
Net income (loss)	-	-	-	-	1,358,996	-	1,358,996
Balances at June 30, 2019	<u>60,145,579</u>	<u>\$ 60,146</u>	<u>\$ 6,176,576</u>	<u>\$(24,200)</u>	<u>\$ (5,766,683)</u>	<u>\$ 173,702</u>	<u>\$ (619,541)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Thunder Mountain Gold, Inc.
Consolidated Statements of Changes in Stockholders' Equity (Deficit)
For the six month periods ended June 30, 2019 and June 30, 2018

	Common Stock			Treasury Stock	Accumulated Deficit	Non-Controlling Interest in OGT	Total
	Shares	Amount	Additional Paid-In Capital				
Balances at January 1, 2018	55,095,579	\$ 55,096	\$ 5,457,538	\$(24,200)	\$ (6,195,923)	\$ 174,111	\$ (533,378)
Shares and warrants issued for cash	1,807,057	1,807	251,181	-	-	-	252,988
Shares and warrants issued for payment of related parties notes payable and accrued interest	742,943	743	103,269	-	-	-	104,012
Distribution to noncontrolling interest	-	-	-	-	-	(421)	(421)
Net income (loss)	-	-	-	-	(488,238)	-	(488,238)
Balances at June 30, 2018	<u>57,645,579</u>	<u>\$ 57,646</u>	<u>\$ 5,811,988</u>	<u>\$(24,200)</u>	<u>\$ (6,684,161)</u>	<u>\$ 173,690</u>	<u>\$ (665,037)</u>
Balances at January 1, 2019	57,645,579	\$ 57,646	\$ 5,811,988	\$(24,200)	\$ (6,833,610)	\$ 173,702	\$ (814,474)
Shares issued for cash	2,500,000	2,500	247,500	-	-	-	250,000
Stock based compensation	-	-	117,088	-	-	-	117,088
Net income (loss)	-	-	-	-	1,066,927	-	1,066,927
Balances at June 30, 2019	<u>60,145,579</u>	<u>\$ 60,146</u>	<u>\$ 6,176,576</u>	<u>\$(24,200)</u>	<u>\$ (5,766,683)</u>	<u>\$ 173,702</u>	<u>\$ (619,541)</u>

The accompanying notes are an integral part of these consolidated financial statements.

1. Summary of Significant Accounting Policies and Business Operations

Business Operations

Thunder Mountain Gold, Inc. (“Thunder Mountain”, “THMG”, or “the Company”) was originally incorporated under the laws of the State of Idaho on November 9, 1935, under the name of Montgomery Mines, Inc. In April 1978, the Montgomery Mines Corporation was obtained by a group of the Thunder Mountain property holders and changed its name to Thunder Mountain Gold, Inc., with the primary goal to further develop their holdings in the Thunder Mountain Mining District, located in Valley County, Idaho. Thunder Mountain Gold, Inc. takes its name from the Thunder Mountain Mining District, where its principal lode mining claims were located. For several years, the Company’s activities were restricted to maintaining its property position and exploration activities. During 2005, the Company sold its holdings in the Thunder Mountain Mining District. During 2007, the Company acquired the South Mountain Mines property in southwest Idaho and initiated exploration activities on that property, which continue today.

Basis of Presentation and Going Concern

These unaudited interim consolidated financial statements have been prepared by the management of the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of the Company’s management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the interim consolidated financial statements have been included.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company's financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of the Company's financial position and results of operations. Operating results for the six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2019.

For further information refer to the financial statements and footnotes thereto in the Company’s audited financial statements for the year ended December 31, 2018 as filed with the Securities and Exchange Commission.

The accompanying consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern. The Company has historically incurred losses, however, currently has sufficient cash at June 30, 2019 to fund normal operations for the next 12 months. With the signing of the BeMetals Option Agreement (Note 3), the Company now has a recurring source of revenue, and its ability to continue as a going concern is no longer just dependent on equity capital raises and borrowings. The Company continues to have the ability to raise capital in order to fund its future exploration and working capital requirements. The Company’s plans for the long-term continuation as a going concern include financing the Company’s future operations through sales of its common stock and/or debt and the eventual profitable exploitation of its mining properties.

On February 27, 2019, the Company entered into an Option Agreement, (the “BeMetals Option Agreement”) with BeMetals Corp. Under the terms of the BeMetals Option Agreement, BMET USA will be entitled to purchase 100% of the issued and outstanding shares of South Mountain Mines, Inc. (“SMMI”) from Thunder Mountain Resources, Inc. (“TMRI”), both wholly owned subsidiaries of the Company. The term of the agreement is for two years with BeMetals completing a preliminary economic assessment (“PEA”) completed by a mutually agreed third-party engineering firm. Over its term, this agreement requires cash payments to the Company of \$1,350,000 - \$1,100,000 in cash and \$250,000 in exchange for shares of the Company’s common stock. Through June 30, 2019, cash proceeds of \$100,000 and \$250,000 in exchange for shares of the Company’s common stock have been received. In the event that BeMetals decides not to proceed with the South Mountain Project, BeMetals will not be obligated to make any additional payments. See Note 3 for further information.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company; its wholly owned subsidiaries, Thunder Mountain Resources, Inc. (“TMRI”) and South Mountain Mines, Inc. (“SMMI”); and a company in which the Company owns 75% and has majority control, Owyhee Gold Trust, LLC (“OGT”). The Company’s consolidated financial statements reflect the other investor’s 25% non-controlling, capped interest in OGT. Intercompany accounts are eliminated in consolidation.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring the use of management estimates and assumptions include the carrying value of properties and mineral interests, environmental remediation liabilities, deferred tax assets, and stock-based compensation. Management’s estimates and assumptions are based on historical experience and other assumptions believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Revenue Recognition

Management service revenue is recognized when the Company has satisfied its performance obligation required under its management contract. Such obligation is satisfied over time as work is performed and the Company has a contractual right to payment.

Income Taxes

The Company recognizes deferred income tax liabilities or assets at the end of each period using the tax rate expected to be in effect when the taxes are actually paid or recovered. A valuation allowance is recognized on deferred tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized.

Fair Value Measurements

When required to measure assets or liabilities at fair value, the Company uses a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used. The Company determines the level within the fair value hierarchy in which the fair value measurements in their entirety fall. The categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Level 1 uses quoted prices in active markets for identical assets or liabilities, Level 2 uses significant other observable inputs, and Level 3 uses significant unobservable inputs. The amount of the total gains or losses for the period are included in earnings that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date. At June 30, 2019, the Company has one financial asset, investment in equity security, that is adjusted to fair value on a recurring basis for which the fair value is determined based on Level 1 inputs as the equity security is traded on a stock exchange. The Company has no financial liabilities that are adjusted to fair value on a recurring basis.

Financial Instruments

The Company’s financial instruments include cash and cash equivalents, investment in equity security and related party notes payable the carrying value of which approximates fair value based on the nature of those instruments.

Investments

The Company determines the appropriate classification of investments at the time of acquisition and re-evaluate such determinations at each reporting date. Equity securities determined to be marketable are carried at fair value determined using Level 1 fair value measurement inputs with the change in fair value recognized in the Consolidated Statement of Operations each reporting period.

Mineral Interests

The Company capitalizes costs for acquiring mineral interests and expenses costs to maintain mineral rights and leases as incurred. Exploration costs are expensed in the period in which they occur. Should a property reach the production stage, these capitalized costs would be amortized using the units-of-production method based on periodic estimates of ore reserves. Mineral properties are periodically assessed for impairment of value and any subsequent losses are charged to operations at the time of impairment. If a property is abandoned or sold, its capitalized costs are charged to operations.

Investments in Joint Venture

The Company's accounting policy for joint ventures is as follows:

1. The Company uses the cost method when it does not have joint control or significant influence in a joint venture. Under the cost method, these investments are carried at cost. If other than temporary impairment in value is determined, it would then be charged to current net income or loss.
2. If the Company enters into a joint venture in which there is joint control between the parties or the Company has significant influence, the equity method is utilized whereby the Company's share of the venture's earnings and losses is included in the statement of operations as earnings in joint ventures and its investments therein are adjusted by a similar amount. If other than temporary impairment in value is determined, it would then be charged to current net income or loss.
3. In a joint venture where the Company holds more than 50% of the voting interest and has significant influence, the joint venture is typically consolidated with the presentation of non-controlling interest. In determining whether significant influences exist, the Company considers its participation in policy-making decisions and its representation on the venture's management committee. See Note 3 regarding the Company's investment in Owyhee Gold Trust, LLC.

Reclamation and Remediation

The Company's operations have been, and are subject to, standards for mine reclamation that have been established by various governmental agencies. The Company would record the fair value of an asset retirement obligation as a liability in the period in which the Company incurred a legal obligation for the retirement of tangible long-lived assets. A corresponding asset would also be recorded and depreciated over the life of the asset.

After the initial measurement of the asset retirement obligation, the liability is adjusted at the end of each reporting period to reflect changes in the estimated future cash flows underlying the obligation.

Determination of any amounts recognized upon adoption is based upon numerous estimates and assumptions, including future retirement costs, future inflation rates and the credit-adjusted risk-free interest rates.

For non-operating properties, the Company accrues costs associated with environmental remediation obligations when it is probable that such costs will be incurred, and they are reasonably estimable. Such costs are based on management's estimate of amounts expected to be incurred when the remediation work is performed.

Share-Based Compensation

Share-based payments to employees and directors, including grants of employee stock options, are measured at fair value and expensed in the statement of operations over the vesting period.

Recent Accounting Pronouncements

Accounting Standards Updates Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02 Leases (Topic 842). The update modified the classification criteria and requires lessees to recognize the assets and liabilities on the balance sheet for most leases. The update was effective for fiscal years beginning after December 15, 2018, with early adoption permitted. Adoption of this update as of January 1, 2019 did not have a material impact on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07 Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The update involves simplification of several aspects of accounting for

nonemployee share-based payment transactions by expanding the scope of Topic 718 to include nonemployee awards. The update was effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. Adoption of this update as of January 1, 2019 did not have a material impact on the Company's consolidated financial statements.

Accounting Standards Updates to Become Effective in Future Periods

In August 2018, the FASB issued ASU No. 2018-13 Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The update removes, modifies and makes additions to the disclosure requirements on fair value measurements. The update is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Management is evaluating the impact of this update on the Company's fair value measurement disclosures.

Net Income (Loss) Per Share

The Company is required to have dual presentation of basic earnings per share ("EPS") and diluted EPS. Basic EPS is computed as net income (loss) divided by the weighted average number of common shares outstanding for the period. Diluted EPS is calculated based on the weighted average number of common shares outstanding during the period plus the effect of potentially dilutive common stock equivalents, including options and warrants to purchase the Company's common stock. The potential dilutive common stock equivalents for each period are as follows:

<u>For Quarter and Six Months ended</u>		
<u>June 30,</u>	<u>2019</u>	<u>2018</u>
Stock options	5,035,000	3,710,000
Warrants	-	1,275,000
Total possible dilution	5,035,000	4,985,000

As of June 30, 2019, stock options were excluded from the calculation of diluted earnings per share because the options' exercise prices were not lower than the average share price during the periods. As of June 30, 2018, potentially dilutive common stock equivalents are not included in the calculation of diluted earnings per share as their effect would have been anti-dilutive.

2. Commitments

The Company has two lease arrangements with landowners that own land parcels adjacent to the Company's South Mountain patented and unpatented mining claims. The leases were originally for a seven-year period, with annual payments of \$20 per acre. The leases were renewed for an additional 10 years at \$30 per acre paid annually; committed payments are listed in the table below. The lease payments have no work requirements.

	<u>Annual Payment</u>
Acree Lease (June)	\$ 3,390
Lowry Lease (October)	11,280
Total	\$14,670

The Company has 78 unpatented claims (1,600 acres) in the Trout Creek area and 21 unpatented claims in the South Mountain area. The claim fees are paid on these unpatented claims annually as follows:

<u>Target Area</u>	<u>2019</u>
Trout Creek -State of Nevada	\$12,090
Trout Creek -Lander County	940
South Mountain-State of Idaho	3,255
Total	\$16,285

3. South Mountain Project

BeMetals Option Agreement:

On February 27, 2019, the Company entered into an Option Agreement, (the "BeMetals Option Agreement") with BeMetals Corp., a British Columbia corporation ("BeMetals"), and BeMetals USA Corp., a Delaware corporation ("BMET USA"), a wholly owned subsidiary of BeMetals. Under the terms of the BeMetals Option Agreement, BMET USA will be entitled to

purchase 100% of the issued and outstanding shares of SMMI from TMRI, both wholly owned subsidiaries of the Company. SMMI is the Company's subsidiary that holds the Company's investment in the South Mountain project mineral interest. The term of the agreement is for two years with BeMetals completing a preliminary economic assessment ("PEA") completed by a mutually agreed third-party engineering firm.

Pursuant to the BeMetals Option Agreement, BMET USA will be entitled to purchase 100% of the outstanding shares of SMMI from TMRI if the following obligations are satisfied:

- Tranche 1: cash payment of \$100,000 to TMRI within 1 business day of delivery of voting support agreements from shareholders of THMG who hold or control shares carrying more than 50% of the voting rights attached to all outstanding THMG Shares. Payment was received on March 5, 2019 and is nonrefundable.
- Tranche 2: within 3 business days following satisfaction of the Tranche 2 conditions (as defined and described below - the "Tranche 2 Completion Date"):
 - issuance of 10 million common shares in the capital of BMET USA to TMRI; and
 - BMET USA purchase of 2.5 million shares of THMG common stock at a price of \$0.10 per share, for an aggregate purchase price of \$250,000, on a private placement basis.
- Tranche 3: cash payment of \$250,000 on or before the 6-month anniversary of the Tranche 2.
- Tranche 4: cash payment of \$250,000 on or before the 12-month anniversary of the Tranche 2.
- Tranche 5: cash payment of \$250,000 on or before the 18-month anniversary of the Tranche 2.
- Tranche 6: cash payment of \$250,000 plus an additional payment paid in in cash, BMET USA common shares or a combination of both. The calculation of the additional payment is an amount equal to the lesser of 50% of the market capitalization of BeMetals at the time, and the greater of either \$10 million; or 20% the net present value of the South Mountain Project as calculated in a PEA.

The "Tranche 2 Completion Date" as defined by the Option Agreement is subject to several conditions, including, among other things:

- all requisite consents and regulatory approvals, including Exchange Approval;
- approval of the shareholders of THMG which has been received from 53.24% of shareholders holding or controlling the issued and outstanding shares of the Company as of February 28, 2019;
- delivery by THMG of a title opinion in respect of the South Mountain Project (including opinions relating to OGT, SMMI's ownership interest in OGT and TMRI ownership of SMMI Shares) (the "Title Opinion"), and related corporate legal opinions (met as of May 1, 2019);
- delivery by THMG of an updated technical report in respect of the South Mountain Project, re-addressed to SMMI and BMET USA and with such amendments as required to satisfy Exchange requirements (met as of May 6, 2019); and
- entry into the management contracts as defined by the Option Agreement (met as of May 13, 2019).

Tranche 2 was completed on June 10, 2019. As per the agreement, BeMetals purchased 2,500,000 shares of the Company's common stock for \$250,000 in cash. In addition, as per the agreement, the Company received 10,000,000 shares of BeMetals common stock that had a fair value of \$1,883,875 on the Tranche 2 Completion Date.

To date, the Company has received consideration of \$100,000 in cash and \$ 1,883,875 in BeMetals common stock. Prior to the agreement, the carrying value of the Company's investment in the South Mountain mineral interest was \$ 479,477. The Company recognized a gain on mineral interest of \$1,504,398 during the six months ended on June 30, 2019.

Concurrent with the BeMetals Option Agreement, BMET USA and SMMI entered into a management contract whereby BMET USA will pay \$25,000 monthly to SMMI for management services to enable BMET to perform exploration and development work with respect to the South Mountain Project. Management service income of \$50,000 was recognized in the three and six month periods ended June 30, 2019.

SMMI Joint Venture – OGT

The Company's wholly owned subsidiary SMMI is the sole manager of the South Mountain Project in its entirety through a separate Mining Lease with Option to Purchase ("Lease Option") with the Company's majority-owned subsidiary OGT. The Lease Option includes a capped \$5 million less net returns royalties paid through the date of exercise. The Lease Option expires in November 2026. If SMMI exercises the option, the option payment of \$5 million less advance royalties will be

distributed 100% by OGT to OGT's minority member. Under the Lease Option, SMMI pays an advance \$5,000 net returns royalty to OGT annually on November 4 which is distributed to OGT's minority member.

4. Property and Equipment

The Company's property and equipment are as follows:

	June 30, 2019	December 31, 2018
Vehicles	\$ 22,441	\$ 22,441
Buildings	65,071	65,071
Construction Equipment	36,447	36,447
Mining Equipment	58,646	58,646
	<u>182,605</u>	<u>182,605</u>
Accumulated Depreciation	(139,598)	(124,384)
	<u>43,007</u>	<u>58,221</u>
Land	280,333	280,333
Total Property and Equipment	<u>\$ 323,340</u>	<u>\$ 338,554</u>

5. Related Parties Notes Payable

At December 31, 2018, the Company had notes payable balances of \$56,768 and \$69,808 with Eric Jones, the Company's President and Chief Executive Officer and Jim Collard, the Company's Vice President and Chief Operating Officer, respectively. These notes, as amended, bear interest at 1.0% to 2.0% per month and are due December 31, 2019. On February 14, 2019 and May 9, 2019, Eric Jones loaned an additional \$10,000 and \$30,000, respectively, at an interest rate of 1.5% per month and initially payable in full on June 30, 2019 bringing his balance at June 30, 2019 to \$96,768. Mr. Jones was paid \$20,000 on July 2, 2019 and the due date of the remaining balance of \$10,000 was extended to December 31, 2019.

On January 18, 2019, the Company executed a promissory note payable with Paul Beckman, a director of the Company. The amount of the note was \$10,000 at an interest rate of 1.5% per month the amount was paid on June 17, 2019 with interest of \$736.

On October 25, 2017 the Company received \$100,000 from Mr. Beckman under a convertible promissory note. On February 26, 2018, Mr. Beckman participated in the Company's Private Placement and acquired 1,000,000 Units for \$140,000. A portion of this amount was in exchange for retirement of Mr. Beckman's convertible note payable of \$100,000 and accrued interest payable of \$4,012. After this transaction, the Company had no remaining obligation under the convertible note agreement with Mr. Beckman.

6. Related Party Transactions

In addition to the related parties notes payable discussed in Note 5, the Company had the following related party transactions.

Three of the Company's officers began deferring compensation for services on April 1, 2015. On July 31, 2018, the Company stopped expensing and deferring compensation for the three Company officers in the interest of marketing the SMMI project. As part of the BeMetals agreement (Note 3), the Company resumed compensation for these officers on May 15, 2019. The officers deferred compensation balances at June 30, 2019 are as follows: Eric Jones, President and Chief Executive Officer - \$432,000 (December 31, 2018 - \$420,000); Jim Collord, Vice President and Chief Operating Officer - \$423,000 (December 31, 2018 - \$420,000); and Larry Thackery, Chief Financial Officer - \$208,500 (December 31, 2018 - \$201,500).

The Company engages Baird Hanson LLP ("Baird"), a company owned by one of the Company's directors, to provide legal services. During the year ended December 31, 2018, the Company incurred \$65,530 in legal expense with Mr. Baird. There was no expense for the six-month period ended in 2019. At both June 30, 2019 and December 31, 2018, the balance due to Baird was \$241,685.

Since 2017, Eric Jones has advanced funds to the Company for operating expenses. The balance of Mr. Jones' advances at June 30, 2019 and December 31, 2018 was \$17,046 and \$20,971, respectively; the balance is included in accounts payable and other accrued liabilities on the consolidated balance sheet. At June 30, 2019 and December 31, 2018, the Company has a payable to Jim Collord of \$35,476 and \$33,167, respectively, attributed to reimbursement of expenses for SMMI project. The balance is included in accounts payable and other accrued liabilities on the consolidated balance sheet.

7. Stockholders' Equity

The Company's common stock has a par value of \$0.001 with 200,000,000 shares authorized. The Company also has 5,000,000 authorized shares of preferred stock with a par value of \$0.0001.

On February 20, 2018, the Board of Directors approved a Private Placement financing of up to \$750,000 from the sale of equity units at a price of \$0.14 per unit. Each unit consisted of one share of the Company's common stock and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional share of common stock of the Company at a price of \$0.20 for a period of 12 months. On April 27, 2018 the Company closed its Private Placement. The Company sold Units representing a total of 2,550,000 shares of common stock and 1,275,000 common stock purchase warrants for total proceeds of \$357,000. Of this amount, \$252,988 was received in cash and \$104,012 was in exchange for retirement of a convertible note payable and related accrued interest payable. See Note 5.

As per the agreement, BeMetals purchased 2,500,000 shares of the Company's common stock for \$250,000 in cash. See Note 3

At June 30, 2019 and December 31, 2018, the Company has outstanding warrants for nil and 1,275,000, respectively shares of common stock with an exercise price of \$0.20 that expires in 2019. During the six month period ended June 30, 2019, no warrants were issued or exercised, and 1,275,000 warrants expired unexercised.

8. Stock Options

In June 2019, the Company granted 1,325,000 stock options to officers and directors of the Company. The options are exercisable on or before March 25, 2024 and have an exercise price of \$0.09. The fair value of the options was determined to be \$117,088 using the Black Scholes model. The options were fully vested upon grant and the entire fair value was recognized as compensation expense during the six months ended June 30, 2019.

The fair value of each option award was estimated on the date of the grant using the assumptions noted in the following table:

Number of Options	1,325,000
Stock price	\$0.09
Exercise price	\$0.09
Expected volatility	209.5%
Expected dividends	-
Expected terms (in years)	5.0
Risk-free rate	2.21%

The following is a summary of the Company's options issued and outstanding under the Stock Option Incentive Plan:

	Shares	Weighted Average Exercise Price
Outstanding and exercisable at December 31, 2017	4,700,000	0.09
Granted	-	-
Expired	(990,000)	(0.07)
Outstanding and exercisable at December 31, 2018	3,710,000	\$0.09
Granted	1,325,000	\$0.09
Expired	-	-
Outstanding and exercisable at June 30, 2019	<u>5,035,000</u>	<u>\$0.09</u>

The average remaining contractual term of the options outstanding and exercisable at March 31, 2019 was 2.78 years. As of June 30, 2019, options outstanding and exercisable had no aggregate intrinsic value.